

STATE CAPITALISM MARCHES ON

DHARAMSEY M. KHATAU

The framework of laws and regulations for rigorously controlling the functioning of the private sector has now been completely and effectively forged. Following upon drastic amendments to the Constitution enabling outright nationalisation, or the assumption by Government of complete managerial control over private property, upon such terms as to compensation as the Government of the day might think proper, there have been enacted a series of laws of the most far-reaching character. The new Companies Act, the further amendment of the Industries (Development & Regulation) Act, the amendment of the Banking Companies Act, and the recent Finance Act complete the tally. Taken together with the previously existing restrictive laws and the voluminous labour legislation already on the statute book, they furnish such a complete range of weapons in the Government's armoury that it seems pointless to talk any longer of freedom for the private sector. The issue must be joined hereafter on the broader base of preservation of freedom and democratic institutions, because what is now in danger of being smothered is not just the private sector in the industrial field but Free Enterprise generally.

Two most outstanding recent examples of the suppression of

Free Enterprise and the onward march of State Capitalism have been the nationalisation of Life Insurance and the resort to State Trading in Cement. In the range and scope of their achievements over the last twenty years, these two industries have admittedly made a notable contribution to the development and well-being of this country measured by any standard. Nevertheless, in the case of Life Insurance, a vast and growing industry was nationalised on grounds which do not bear dispassionate scrutiny. And the result has not been conspicuously successful or demonstrably in the larger public interest. Moreover, the conception that with a monopolistic position, new business will come to the door instead of being the hard won reward of strenuous field work, is already being disproved by the alarming drop in the volume of new business written since the advent of the nationalised Life Insurance Corporation. In these circumstances, it is not unlikely that far more loss will probably be suffered by Life Funds as a result of the continuing drop in new business than was ever seriously feared as a result of marginal mismanagement of their Funds by a few weak concerns in the past.

As for State Trading in cement, the Government's rea-

sons for resorting to this remain a mystery to this day. At any rate the reasons so far advanced are far from convincing. The Government's decision is all the more inexplicable because the conditions obtaining in the cement industry did not warrant any such measure. The cement industry had, by its performance and impressive record, honourably carried out the stewardship of free enterprise :

(a) by meeting the legitimate interests of the consumers of cement by producing quality cement with sufficient rapidity to meet the very large and constantly increasing requirements within the country as estimated in the past by Government themselves ;

(b) by making and delivering cement as cheaply as possible, at prices fixed by Government and in accordance with the allocations made by Government themselves ; and

(c) by giving its workers a square deal both in the matter of the emoluments paid and of the services and amenities provided for them — invariably ahead of legislation.

It is true that since 1947-48 there has generally existed a serious shortage of cement in the country — a "cement gap" which has widened with the progress of the First-Five-Year Plan and which the industry has been unable to bridge, despite its impressive production efforts and performance. But it is also true that we were the first to foresee that the gap between indigenous production and demand was likely to widen still further due to the requirements of the Second Five-Year

Plan ; and we ourselves brought the situation to the notice of the Government as far back as in September 1955, with the offer to import cement and to distribute it to the consuming public *without profit*. After taking little or no notice of this suggestion for some months the Government seemed suddenly to feel the urgency to resort to State Trading in cement and sought to justify this step on the following grounds :

(a) the need to import substantial quantities of foreign cement to meet the current "cement gap" ;

(b) the need to sell both indigenous cement and imported cement (which would cost about Rs. 40/- to Rs. 45/- per ton more than indigenous cement) at an equalised price ; and

(c) the need to rationalise all cement movements by rail so as to impose the minimum strain on the transport system in the country.

We had already recognised the existence of the "cement gap" and had offered to import foreign cement and to sell it to the consumer at cost. We suggested that price equalisation should be done *without profit*, i.e., that the price of Indian cement should be raised by just so much as would be necessary to meet losses on the sale of imported cement at a common delivered price applicable to both. We suggested that this could be done either through the medium of enhanced Excise Duty, or by imposing a "price equalisation cess" on indigenous cement or through the mechanism of a "price equalisation pool" or "trust fund."

either voluntary or statutory. We also offered to evolve a pattern of distribution which would involve only the minimum rail movement. But the disappointing outcome of all this was that while the Government accepted our main proposals they rejected all the alternative price equalisation mechanism we had suggested.

Under the terms of the Government Order which brought State Trading into effect, all manufacturers of cement have been directed to sell their entire production to the State Trading Corporation of India. The producers of cement are paid by the Corporation the same F.O.R. *ex-Works* price (less selling expenses) as was previously allowed to them by the Government of India on the basis of the Tariff Commission's recommendations. In our case this worked out to Rs. 54-8-0 per ton for naked cement, plus packing charges (varying usually from Rs. 13-8-0 to Rs. 14-8-0 per ton) to be determined by Government every quarter. But the State Trading Corporation in turn sells the cement to the public at the new equalised price of Rs. 102-8-0 per ton F.O.R. destination, which is inclusive of excise duty, selling expenses, freight and other handling charges, all of which are borne by the Corporation. As against this, our selling price F.O.R. destination before the advent of State Trading used to be about Rs. 90/- per ton.

The purchase and sale of cement is actually arranged by the State Trading Corporation through the existing selling agencies of the cement manu-

facturers, who were appointed as Agents of the State Corporation for this purpose. The Agents' remuneration for their services comes out of the *ex-factory* prices originally fixed for the manufacturers. The Cement Marketing Co. of India Private Ltd. is accordingly the agent of the State Trading Corporation since 1st July 1956 for the sale and distribution of A.C.C. cement at a commission of Rs. 1-8-0 per ton.

You may well ask why, since no financial loss is involved, does the cement industry oppose State Trading, particularly if this measure was conceived by Government in furtherance of certain agreed national objectives? To this I must unhesitatingly answer that the *industry's objection to State Trading is fundamental*. We believe that all forms of State Trading constitute a serious infringement of the right to freedom of trade in a democratic society. The mere fact that State Trading can resolve a given problem in terms of agreed objectives is not, by itself, a sufficient justification for its adoption if other solutions of equal, or superior, or even slightly inferior validity, but not involving State interference, are available, as was the case in regard to the problem of bridging the "cement gap". Moreover, State Trading lops off the essential sales function from a basic productive industry — a function laboriously built over the years by Free Enterprise, thereby causing grave injury to it. I would also emphasise that State Trading in cement runs counter to the declared policies of Government itself

as enunciated in the Industrial Policy Resolution early last year and in which an attempt was made to strike an admirable balance between State Enterprise and Free Enterprise. The continual maintenance of such a balance is of the very essence of a socialistic pattern of society, *if it is to be built on the foundations of a democratic Constitution.* We therefore object to State Trading in cement both in principle as well as on the merits of the case.

In this context, the recent assurances of the Prime Minister in respect of the urgent need for India's adherence to democratic processes in Planning and of evolving a balanced approach between State Enterprise and Free Enterprise are indeed welcome. Referring to the tragic consequences of unbalanced planning in an authoritarian manner in East European countries and elsewhere, the Prime Minister rightly stated : "We attach great value to individual freedom, because in the final analysis we want the creative and adventurous spirit of man to grow. It is not enough for him merely to produce the material goods of the world". Experience has shown that the concentration of economic power in the hands of Government, backed by monolithic majorities in the legislatures and operated through a well organised bureaucracy, must in course of time result in whittling down both individual freedom and liberty. It is with this larger

objective in view that one must repeatedly warn the Government against adopting a doctrinaire and unrealistic approach to problems of planning and in the techniques for achieving industrial development. Issues like Nationalisation and State Trading should be conceived as mere means to an end, not as ends in themselves. Democratic countries which have experimented in socialistic economy have realised that socialism should not mean the establishment of a number of vast public corporations which only end by bringing in State Capitalism and making the State an all-powerful organisation impinging upon individual liberties with heavy-handed bureaucracy and regimentation.

Enlightened Free Enterprise working within the framework of planned development is an indispensable part of the democratic set-up, for there is a close inter-relationship between socially regulated Free Enterprise and Democracy. Free Enterprise is not to be accepted merely on political sufferance or as something to be tolerated on grounds of economic expediency. On the contrary, it must be positively encouraged to thrive by appropriate incentives and reliefs whenever needed, because Free Enterprise has a legitimate and vital function to perform in national planning and development so long as democracy is the foundation upon which our Constitution rests.

With best compliments of :

THE FORUM OF FREE ENTERPRISE

"Sohrab House", 235, Dr. Dadabhai Naoroji Road,
BOMBAY 1.